

This letter discusses application of the manufacturing machinery and equipment exemption to CAD/CAM systems. See 86 Ill. Adm. Code 130.330. (This is a GIL).

July 13, 1999

Dear Mr. Xxxxx:

This letter is in response to your letter dated June 11, 1999. The nature of your letter and the information you have provided require that we respond with a General Information Letter, which is designed to provide general information, is not a statement of Department policy and is not binding on the Department. See 2 Ill. Adm. Code 1200.120(b) and (c), enclosed.

In your letter, you have stated and made inquiry as follows:

I am requesting a letter ruling on sales tax for a client of mine who sells specialized spray painting equipment and supplies. The equipment is used to spray bar codes and other descriptions directly onto the sides of cardboard boxes, etc.

My client sells the following product lines:

1. Spray painting equipment
2. Software to run the machines
3. Supplies (ink, etc)
4. Replacement parts
5. Training and support

I am not sure if the spray painting equipment and software are eligible for the machinery exemption under Illinois Administrative Code Section 130. If they are, please let us know what forms we need from our customers to document the transactions.

As to the other product lines, it appears that items #3 and #4 will be subject to tax, while #5 is not, since no product is sold.

Please let me know if the equipment and software is exempt from sales tax.

Thank you for your attention in this matter.

Machinery and equipment that are used primarily (over 50% of the time) in the manufacturing or assembling of tangible personal property for wholesale or retail sale or lease are exempt from Retailers' Occupation Tax. See the enclosed

copy of 86 Ill. Adm. Code 130.330. The manufacturing process is the production of any article of tangible personal property, whether such article is a finished product or an article for use in the process of manufacturing or assembling a different article of tangible personal property, by procedures commonly regarded as manufacturing, processing, fabricating, or refining that changes some existing material or materials into a material with a different form, use, or name. These changes must result from the process in question and be substantial and significant. The manufacturing or assembly must be of tangible personal property for wholesale or retail sale or lease. The items that the machinery and equipment assists in producing must not be for the manufacturer's own use.

Section 130.330(c)(3) describes the application of the exemption to computer-assisted manufacturing systems. The exemption applies to equipment, "including computers used primarily in operating exempt machinery and equipment in a computer-assisted design, computer-assisted manufacturing (CAD/CAM) system." Whether a computer system is used in a qualifying manner depends upon factual determinations. We do not have enough information to make a determination. However, in general, equipment in a computer-assisted manufacturing system that includes a computer that operates an on-line spray painting machine to paint computerized designs on cardboard boxes being manufactured for subsequent wholesale or retail sale could qualify for the manufacturing machinery and equipment exemption.

The exemption is not available for purchases of computer equipment used in job scheduling, input/output measuring, parts/inventory tracing, accounts receivable/payable, payroll, or other accounting or managerial functions, 86 Ill. Adm. Code 130.330(d)(4). That is, computers and software used for accounting, financial or managerial purposes do not qualify, even though they may be considered essential to the business of manufacturing, because such usage does not constitute the operating of machinery and equipment primarily in manufacturing that is required by the regulation, 86 Ill. Adm. Code 130.330(d)(2).

The manufacturing machinery and equipment exemption includes replacement parts, but does not include supplies. See 86 Ill. Adm. Code 130.330(c)(3). To document the manufacturing machinery and equipment exemption, use form ST-587, copy enclosed.

Purchases of items such as ink, which become part of the manufactured product, may qualify for the resale exemption from tax. See 86 Ill. Adm. Code 130.1405, copy enclosed. With regard to training and support, assuming that the services provided do not require the transfer of tangible personal property to the recipients of those services, charges for such services are exempt if they are separately stated from the selling price of the equipment.

I hope this information is helpful. The Department of Revenue maintains a Web site, which can be accessed at www.revenue.state.il.us. If you have further questions related to the Illinois sales tax laws, please contact the Department's Taxpayer Information Division at (217) 782-3336.

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If you are not under audit and you wish to obtain a binding Private Letter Ruling regarding your factual situation, please submit all of the information set out in items 1 through 8 of the enclosed copy of Section 1200.110(b).

Very truly yours,

Martha P. Mote
Associate Counsel

MPM:msk

Enc.